


The Loan Arranger



Winter 1998

Municipal Facilities Section - Environmental Assistance Division
Michigan Department of Environmental Quality 

Pardon Our Dust

From off on the horizon comes a cloud of dust and the familiar expression, "Hi-ho, Silver!" We know *The Loan Arranger* has arrived. Please pardon the throwback to the days when baby boomers were truly babies, but we thought it appropriate to invoke memories of good deeds performed by the legendary masked man.

Our dust results from the changes made in the Municipal Facilities Section (MFS) to accommodate a new environmental financing program. The MFS has been working for over a year to build a low-interest financing program for drinking water projects, similar to the State Revolving Fund (SRF) for wastewater. This newsletter is a product of the changes that have been made. For the past several years, it was known as *The Digester*. Since this name is inherently linked to wastewater treatment, staff felt it would not be appropriate to carry it on once we began the Drinking Water Revolving Fund (DWRF).

Since we deal with silver, or at least the currency of the country, we started to laugh about the prospects of the cry "Hi-ho, Silver!" to those to whom we could offer financial assistance. From this, the evolution of the name *The Loan Arranger* was quick. It invoked memories of the legendary cowboy riding to the rescue of those who needed aid. That's what we do as well, both in the DWRF and the SRF. Our goal is to provide financial assistance to qualified applicants to help protect the health, vitality and safety of the environment and the citizens of Michigan.

The Loan Arranger will be expanded to encompass articles about the new DWRF, as well as continue to communicate issues relating to the SRF. Readership lists are being expanded to include community and non-

community water suppliers, and consultants who may not have been involved in the SRF. We will continue to publish three times a year, but you will likely see a few more pages because there is more to communicate.

We also would like to welcome into our partnership, the staff of the DEQ, Drinking Water and Radiological Protection Division (DWRPD), who are responsible for administering the Drinking Water Program in Michigan. The DWRPD staff come from the former Michigan Department of Public Health. They will be our partner in administering the DWRF and you will see articles specific to their activities in this and future issues.

We welcome your feedback and comments on the newsletter and hope that you find it informative. If you have suggestions for future articles or features, please address them to *The Loan Arranger* Editor, Municipal Facilities Section, at the address shown on the back.

We look forward to a long and productive run, but for now...we're back to the clouds of dust!

If you wish to make additions, deletions, or changes to *The Loan Arranger* mailing list, please call the Editor, Cindy Salmon, at 517-373-2161, or send your correct name and address to *The Loan Arranger*, Municipal Facilities Section, Environmental Assistance Division, Michigan Department of Environmental Quality, PO Box 30457, Lansing, MI 48909-7957.

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Michigan Department of Environmental Quality

Drinking Water Revolving Fund The Lightning Round

The "thud" heard at the offices of the Municipal Facilities Section on January 2 was the sound of project plans being dropped off in pursuit of Drinking Water Revolving Fund (DWRF) assistance in Fiscal Year 1998 (FY98). Project plans for 36 projects were submitted by public water suppliers, each with the hope of grabbing some portion of the \$75 million currently available in the DWRF. With only seven months remaining in FY98, applicants, their engineers, and bond counsels, as well as staff of the Department of Environmental Quality, Michigan Municipal Bond Authority, and Attorney General have their work cut out for them.

What happens now? The submitted plans have been screened. Those 25 plans that propose a legitimate DWRF project and whose contents are consistent with the requirements of Section 5405 of Michigan's Natural Resources and Environmental Protection Act, appear on the draft FY98 Project Priority List. A public hearing on this list and the state's FY98 Intended Use Plan will be held at 1:30 p.m. on Tuesday, March 17, 1998, in the G. Mennen Williams Building (formerly known as the Law Building) Auditorium. Project managers from the Municipal Facilities Section and staff of the Drinking Water and Radiological Protection Division have already begun working with the applicants for these projects toward planned DWRF loan closings in late June or late September of 1998. Project plan review and approval, development and approval of a revenue collection system, completion of design, and the receipt of construction bids are all tasks that must be completed prior to loan closing. The remainder of FY98 will be very busy!

For FY99, we hope to begin using a standard annual cycle for managing the DWRF program. Suppliers seeking loan assistance in FY99 must submit a final project plan on or before May 1, 1998. Projects in the fundable range of the FY99 Project Priority List will be able to close on their loans in one of four quarters; the end of December 1998, or the end of March, June, or September of 1999.

Department staff are currently working with a number of suppliers who intend to make May 1 submittals. Included are some water suppliers who submitted inadequate project plans on January 2. Suppliers and their engineers should be reminded to closely follow the Project Plan Preparation Guidance available from this office. Special attention should be paid to ensuring that alternatives are adequately evaluated and that public participation opportunities are sufficient. The final plan must contain a description of these opportunities.

Project officials should maintain close contact with their project manager from the Municipal Facilities Section throughout the project planning process. This will help to ensure that all necessary steps are taken in a timely manner. Questions about the Project Plan Preparation Guidance may be directed to the Municipal Facilities Section at 517-373-2161.

DWRF Set-Asides A New Way to do Business by Jim Cleland, DWRPD

The term "set-asides" originated with passage of the federal Safe Drinking Water Act in August 1996. Among state drinking water regulators and state revolving fund administrators across the nation, it has become an integral part of the vocabulary.

There are two types of set-asides; national set-asides administered by the U.S. Environmental Protection Agency, and state set-asides administered by each state with a Drinking Water Revolving Fund (DWRF). Set-asides are used to meet the objectives of Congress and the states in the administration of a comprehensive drinking water program. By funding program needs through set-asides, Congress meets the Unfunded Mandates Act and allows states flexibility in funding programs with the highest priority for their specific needs.

It should be obvious that setting aside any funds from the appropriation for a DWRF will erode the assets of the fund and provide less money for waterworks construction projects. However, Congress has included several new mandates in the reauthorized Safe Drinking Water Act, and is relying on set-asides to fund them. If states fail to meet the new mandates, they are penalized by either suffering a 20-40 percent loss of DWRF grant funds, or loss of federal grant funds dedicated to the state Public Water Supply Supervision Program.

This creates competition (and conflict) in the use of the same appropriated money, but it does allow states to apply funds to areas of greatest need. For example, of the eleven allowable state set-asides in the Safe Drinking Water Act, Michigan is using only three in FY97 and six in FY98.

State set-asides can be up to 31 percent of the total federal grant awarded. Michigan is proposing to use approximately 15 percent of the money for set-asides, and much of the money will be returned to local government and public water suppliers.

Each year that Michigan applies for federal grant funds, an Intended Use Plan must be prepared and a public hearing held on both the money intended for construction projects, and the money proposed to be set aside. In addition, the state holds stakeholder meetings in

advance of the Intended Use Plan to receive public input on the proposed set-asides, a process which was included in 1997 PA 26, the statute which created the DWRF in Michigan by adding Part 54, Safe Drinking Water Assistance to 1994 PA 451.

Michigan is proposing some important new programs using set-asides to improve public water supplies and drinking water quality. Source water protection is a primary theme and three separate set-asides will be used in this area. The state, through contracts with local health departments and Michigan State University, will be assessing each public water supply source for vulnerability to contamination. The information and maps generated will be used by the state, local health departments, and the public for siting new public and private wells and setting priorities for water resource protection activities. The state will initiate efforts to address the problems of abandoned wells. Improperly abandoned wells provide a direct avenue for the migration of surface contaminants into the aquifers used for drinking water. The state is also proposing a matching grant program to public water suppliers who are performing Wellhead Protection Program activities under the voluntary state program. These efforts will provide long term benefits by focusing resources on source protection and pollution prevention.

Other set-asides will be used for direct technical assistance to public water suppliers for water system operation and management. A new program will focus on the technical, financial, and managerial capacity of public water supplies to assure long-term compliance with all national drinking water standards. The state operator certification and training program will be expanded and improved, especially for small public water supplies.

The new provisions of the Safe Drinking Water Act, including the new money to construct water system improvements, should have dramatic impacts upon the quality of drinking water in Michigan and in the nation in future years. More information will be published in future issues of the Loan Arranger.

The Drinking Water and Radiological Protection Division will assume primary responsibility for administering the set-asides, and welcomes your participation and input. Please call 517-335-9218 if you have any questions.

DWRF Publications

Since Governor John Engler signed Acts 26 and 27 into law establishing the new Drinking Water Revolving Fund (DWRF) program, a number of documents have been developed to assist applicants in meeting program requirements. Please review the following list and contact the Municipal Facilities Section if you wish to receive any of these materials.

DWRF Brochure: This brochure provides an introduction to the DWRF program. It includes the program history and purpose, as well as information regarding qualifying water suppliers and types of projects. Basic information regarding the process of applying for and receiving a loan is also provided.

Project Plan Preparation Guidance: This guidance is intended to assist water suppliers in fulfilling the project planning requirements of the DWRF program. A final project plan must include all applicable elements identified in Part 54 (Safe Drinking Water Assistance) of Michigan's Natural Resources and Environmental Protection Act (1994 PA 451) MCL 324.5401-324.5418. This document provides guidance regarding those project planning requirements. It also stresses the uniqueness of every project and the importance of contacting this office early in the process for assistance in identifying applicable planning requirements. It was published in September 1997.

Three supplementary planning handouts are also available upon request: Regional Planning Agency Addresses, National Natural Landmarks in Michigan, and Michigan's Natural and Wild & Scenic Rivers. The Project Plan Preparation Guidance directs applicants to request any of these items if needed to complete the project plan.

Finally, three additional handouts pertaining to federal project planning crosscutters and state requirements are available upon request: a list of crosscutters and the applicable statutes, the environmental contacts list, and a document detailing federal requirements related to project planning.

Eligibility Guidance: This guidance provides information on the eligibility of project costs for DWRF financing. Both general and specific eligibility criteria are provided. Such criteria are necessary to ensure consistency of program decisions regarding eligible costs to include in DWRF loans. This guidance was published in February 1998. The document will be modified in the future, as new eligibility questions are addressed.

Disadvantaged Community Guidance: The intent of this guidance is to provide water suppliers with information regarding the "disadvantaged community" provisions of the DWRF program. It expands upon the statutory provisions contained in Part 54, 1994 PA 451. The guidance may be used to assist applicants in assessing whether they qualify as a disadvantaged community. This document became available in February 1998.

Application: The first step in applying for DWRF assistance is preparation and submittal of a project plan. After the project is listed on the Project Priority List and identified as fundable, an application must be completed. The application includes financial information, project costs, and bid data. This application is currently under development and will be available in February 1998.

In addition to the above materials, project plan review checklists have also been developed to assist both the MFS and Drinking Water and Radiological Protection Division (DWRPD) staff in the review of project plan submittals. A Powerpoint presentation has also been created to assist staff in presenting information about this new program. Please contact the MFS to schedule an informational meeting and viewing of the slide show. Photocopies of the slides have also been printed and are available upon request.

Disadvantaged Community Status

The new Drinking Water Revolving Fund (DWRF) offers additional benefits to disadvantaged municipalities. Such determinations are made by the Technical Support Unit of the Municipal Facilities Section, based on information provided by water suppliers interested in obtaining a loan from the DWRF.

To qualify as a disadvantaged community, a supplier must meet several qualifications. First, only suppliers meeting the definition of a "municipality" in Part 54, Safe Drinking Water Assistance, 1994 PA 451, may qualify.

Next, the updated Median Annual Household Income (MAHI) for the area to be served by a proposed project must not exceed 120 percent of the updated statewide MAHI for Michigan. This is calculated by taking the published amounts from the U.S. Bureau of the Census statistics and applying the Detroit Consumer Price Index published by the U.S. Bureau of Labor Statistics.

The proposed project costs must also be directly assessed to users within the area served by the proposed project. The intent of the disadvantaged status is to provide relief primarily to residential customers who may be economically distressed by high annual user costs. This is determined by the comparison of MAHI information to annual user costs. If the project costs are borne over an area wider than the area to be served by the project, then the updated MAHI for the entire assessment area would be reviewed.

If these three criteria are met, a determination will then be based on one of the following four applicable standards:

1. More than 50 percent of the area to be served by the project is identified as a poverty area by the U.S. Bureau of the Census.
2. The updated MAHI for the area to be served is less than the most recently published Federal Poverty Guidelines for a family of four in the contiguous United States.

3. If the updated MAHI for the area to be served is less than the updated statewide MAHI for Michigan, annual user costs must exceed 1.5 percent of the MAHI for the service area.
4. If the updated MAHI for the area to be served is greater than the updated statewide MAHI, annual user costs must exceed 3.0 percent of the updated MAHI for the service area.

If a water supplier meets the criteria identified here, they will receive 50 additional points in the priority system, be offered repayment terms up to 30 years, and may obtain help in defraying their costs of project planning. Two reviews will be conducted. One will occur based on project plan information to determine qualification for priority points. The second will occur after bid costs are known to determine whether or not the supplier will receive planning assistance and the additional years to repay the loan.

More details can be found in the DWRF Disadvantaged Community Guidance. Copies may be requested by calling the Municipal Facilities Section at 517-373-2161.

Fiscal Year 1997 Annual Report for the State Revolving Fund

Staff of the Municipal Facilities Section recently completed the FY1997 Annual Report for Michigan's State Revolving Fund (SRF). The SRF provides low-interest loans to municipalities undertaking water pollution control projects.

Completing its ninth year, the SRF has matured into an attractive financing alternative for municipal financing of wastewater treatment projects. During FY1997, the Department of Environmental Quality (DEQ) and the Michigan Municipal Bond Authority (MMBA) closed on 16 loans which totaled \$104.2 million. To date, the SRF has financed \$706.9 million for 130 projects.

The distribution of different types of projects among municipalities of differing sizes is also encouraging. Since its inception, 36.3 percent of all SRF loans made have been committed to municipalities of less than 10,000 in size. While combined sewer overflow (CSO) corrections account for 48 cents of every dollar spent, the commitments for CSO correction in FY1997 were only 8.4 percent. This reduction permits other wastewater treatment upgrade projects to qualify for available loan funds.

The SRF has also pushed outlays once commitments were made. We have disbursed 75 cents of every dollar made in loan commitments to local municipalities. This means the dollars materialize more quickly for municipalities and their contractors, and keeps the work progress moving forward. This has also paid off in

quicker administrative completion of projects in the SRF program. Dollars remaining are committed to projects still under construction.

The SRF program was designed to operate as a revolving fund. As repayments have come into the SRF accounts from earlier loans, the DEQ and the MMBA have used them to augment the waning federal contribution. Federal funds accounted for less than one-third of the available capital during FY1997.

For further information about the FY1997 SRF Annual Report, please check out our MFS Homepage at www.deq.state.mi.us/ead/mfsect/.

Public Participation

Many water suppliers submitted Drinking Water Revolving Fund (DWRf) project plans on January 2, 1998 hoping to be placed on the Project Priority List (PPL). Unfortunately, inadequate submittals precluded some projects from being placed on the FY98 PPL.

Part 54, 1994 PA 451 specifies what a complete project plan must include. Municipal Facilities Section staff made the Project Plan Preparation Guidance available in September 1997, which explained the law.

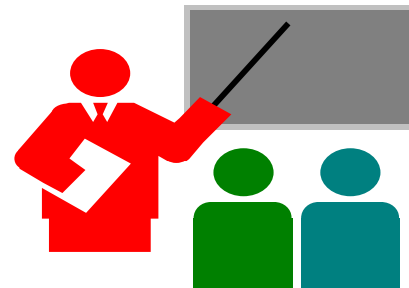
One of the most common misunderstandings in this first round of submittals involved public participation requirements. The language in Part 54 was intended to ensure that each applicant had provided proper public notice of the proposed project to the affected community. The following steps must be taken to ensure adequate public participation.

- The applicant must hold a public hearing on the proposed project. The date, time, and place chosen must be conducive to maximizing public input opportunities. An early morning or noontime hearing may not afford the public an adequate opportunity to attend. Similarly, scheduling a hearing on or near a holiday may not maximize public participation in the decision-making process.
- The public hearing needs to be advertised at least 30 days in advance. The advertisement should be placed in one or more publications of local circulation in order to reach the greatest number of affected parties. Using the local newspaper, as well as posting the notice at the water supplier's or municipal/township offices, or direct mailing to system customers is recommended.
- The draft project plan must be available to the public for examination for at least 30 days prior to the hearing, with the location of its availability mentioned in the advertisement. Typically, the applicant displays the plan, and may be able to answer questions prior to the hearing.

- A verbatim written transcript or an audio recording of the entire public hearing must be provided with the project plan submittal. Summaries or meeting minutes are not complete records of the hearing, and are unacceptable.
- Changes to the draft project plan resulting from public concerns should be described in detail in the final submittal.
- An attendance list from the public hearing, including names and complete addresses, is required in the final project plan submittal.
- Copies of all written public comments on the project, along with the applicant's responses, must be included in the final project plan submittal.

After concluding the public participation process, the final plan must contain a resolution of adoption from the governing body of the participating municipality(ies), or a statement of intent from a water supplier who is not a municipality. This resolution must occur only after the public hearing has been held.

Documentation of the public participation process is only one critical component of an acceptable final project plan. **Water suppliers submitting plans for the May 1, 1998 deadline are advised to contact the Municipal Facilities Section as soon as possible, so that a project manager can assist them.**



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